

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: City of Trenton	County Wayne
Audit Date June 30, 2005	Opinion Date November 4, 2005	Date Accountant Report Submitted To State: December 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Hwy	City Southfield	State MI	ZIP 48034
Accountant Signature 			

City of Trenton, Michigan

**Financial Report
with Supplemental Information
June 30, 2005**

City of Trenton, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Trenton, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Trenton, Michigan (the "City") as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Trenton, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Trenton, Michigan as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison schedule of the General Fund, and the pension system schedule of funding progress and employer contributions identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and
Members of City Council
City of Trenton, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Trenton, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have issued our report dated December 20, 2005 on our consideration of the City of Trenton, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

November 4, 2005

City of Trenton, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Trenton, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2005:

- The City exceeded its \$18,116,394 originally budgeted revenues by \$41,468. The budgeted revenue anticipated a use of fund balance of \$600,000 and a transfer from the Special Revenue fund of \$220,600, which was not made.
- Total net assets related to the City's governmental activities decreased by approximately \$182,000. Total net assets, government and business-type combined, increased by approximately \$1,351,000.
- The City continued its long-term investment in the sewer infrastructure by issuing an additional \$4,130,000 in State Revolving Fund General Obligation Limited Tax Bonds. Previously issued bond proceeds were used to continue enhancement of the downtown area and to improve the Teifer Arena at the Kennedy Recreation Center.
- Building activity remained strong, this year adding more condominium projects at Pinehurst and Rolling Ridge. The largest taxpayer, Daimler-Chrysler, had requested and received an industrial facilities tax abatement, expanding facility operations and helping ensure the plant's long-term viability.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view. They tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statement by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

City of Trenton, Michigan

Management's Discussion and Analysis (Continued)

The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2005 and 2004 (in thousands of dollars):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	\$ 16,586	\$ 17,014	\$ 3,599	\$ 2,557	\$ 20,186	\$ 19,571
Noncurrent assets	18,410	17,543	72,710	70,181	91,120	87,724
Total assets	34,996	34,557	76,309	72,738	111,305	107,295
Liabilities						
Current liabilities	4,137	3,227	3,789	3,634	7,926	6,861
Long-term liabilities	4,243	4,533	51,349	49,464	55,592	53,997
Total liabilities	8,380	7,760	55,138	53,098	63,518	60,858
Net Assets						
Invested in capital assets - Net of related debt	14,325	13,246	17,588	16,355	31,913	29,601
Restricted	1,656	1,447	1,282	1,318	2,938	2,765
Unrestricted	10,635	12,104	2,300	1,967	12,935	14,071
Total net assets	<u>\$ 26,616</u>	<u>\$ 26,797</u>	<u>\$ 21,171</u>	<u>\$ 19,640</u>	<u>\$ 47,787</u>	<u>\$ 46,437</u>

The City's combined net assets increased a modest 2.9 percent from a year ago, increasing from \$46,437,000 to \$47,787,000. Governmental activities decreased 0.7 percent while business type activities increased 7.8 percent (\$182,000 decrease in governmental activities versus an increase of approximately \$1,532,000 in business activities).

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, decreased by \$1,469,000 for governmental activities. This represents a decrease of 12.1 percent. This is attributed mostly to converting previously unrestricted assets to fund current year operations, capital improvements, purchase of equipment, and providing for other postretirement benefits.

City of Trenton, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the years ended June 30, 2005 and 2004 (in thousands of dollars):

TABLE 2

	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 2,394	\$ 2,496	\$ 6,514	\$ 6,865	\$ 8,908	\$ 9,361
Operating grants and contributions	1,312	1,391	-	-	1,312	1,391
Capital grants and contributions	1,416	33	564	600	1,980	633
General revenue:						
Property taxes	14,503	15,001	2,501	1,924	17,004	16,925
State-shared revenue	2,275	2,319	-	-	2,275	2,319
Unrestricted investment earnings	463	236	53	30	516	266
Transfers and other revenue (expense)	(465)	(298)	249	266	(216)	(32)
Total revenue	21,898	21,178	9,881	9,685	31,779	30,863
Program Expenses						
General government	4,708	4,073	-	-	4,708	4,073
Public safety	10,178	8,936	-	-	10,178	8,936
Public works	5,192	4,993	-	-	5,192	4,993
Health and welfare	-	600	-	-	-	600
Community and economic development	654	526	-	-	654	526
Recreation and culture	556	768	-	-	556	768
Special projects	650	216	-	-	650	216
Interest on long-term debt	141	151	-	-	141	151
Enterprise	-	-	8,349	8,962	8,349	8,962
Total program expenses	22,079	20,263	8,349	8,962	30,427	29,225
Change in Net Assets	\$ (181)	\$ 915	\$ 1,531	\$ 723	\$ 1,351	\$ 1,638

Governmental Activities

The City's total governmental revenues increased a modest \$720,000 from the previous year. Capital contributions related to upgrades of W. Jefferson account for \$1.2 million of the increase. Increasing transfers to other funds, a budget shortfall in property tax revenue, and continued decreases in State-shared revenue were the main causes for the downturn in revenue. The City continues to closely monitor spending in health care and prescription drug costs.

City of Trenton, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and Kennedy Recreation Center. Water, provided to residential, commercial, and industrial users, is purchased from the Detroit Water System. Sewage treatment is provided through a City-owned and operated sewage treatment plant. The combined water and sewer rate was held constant for the fiscal year 2004-2005. This factor and the continued slow down in the local economy contributed to flat sales of water, with a modest decrease from the previous year of 3.5 percent. A major industrial user of the sewage system, however, had an 84 percent increase in its historic usage resulting in an increase of \$321,247 over projected revenues. This increase is not expected to continue in the following fiscal year (2005-2006). Increased breaks in old water mains caused water loss to increase from 12 percent to 17 percent. The City is averaging the replacement of one water main a year through the rate structure. In spite of these factors and the infrastructure improvements at the wastewater treatment plant, the water and sewer system was able to limit expenditures and reduce operating costs. The radio read system, approved by council in 2003, is almost totally installed with approximately 85 percent of the project, or over 7,300 installations completed.

The Kennedy Recreation Center saw the completion of additional capital improvements in Teifer Arena, which were fully operational for most of the hockey season. Due to the favorable interest rates currently existing for borrowers, the City will undertake a refinancing of the original construction bond issue in the next fiscal year.

The City's Funds

Analysis of the City's major fund, the General Fund, begins on page 11 following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The City's only major governmental fund for 2004-2005 was the General Fund.

The General Fund pays for most of the City's governmental services. The most significant are public safety, which incurred expenses of approximately \$8,628,000, or 49 percent of general fund expenditures in fiscal year 2004-2005. Public works would be next at approximately \$3,562,000, or 20 percent of general fund expenditures. These services are almost entirely supported by property taxes.

General Fund Budgetary Highlights

Over the course of the year, the City amended its budget to take into account events occurring during the year. The City's actual General Fund expenditures exceed budgeted amounts by approximately \$114,000. This was due primarily to tax tribunal adjustments and the repayment to Wayne County for approximately \$357,000 of a major taxpayer's unpaid 2001 and 2002 property taxes which the County had previously advanced to the City. These events were not anticipated or budgeted.

City of Trenton, Michigan

Management's Discussion and Analysis (Continued)

In contrast, due to the reduction of the City's workforce through attrition and careful spending, the City's reduction in the General Fund's fund balance was within expectations. Cost savings were realized across the board by all departments. The net effect of the year's operating loss was an approximate \$673,000 reduction on the City's General Fund fund balance, which closely approximates the originally budgeted decrease of \$600,000.

Capital Asset and Debt Administration

At the end of 2004-2005 fiscal year, the City had \$86.4 million invested in a broad range of capital assets, including buildings, police and fire equipment, water and sewer lines, and the Kennedy Recreation Center. Phase I renovation of the downtown streetscape was completed during the year. In addition, to date, the City has bonded over \$46 million dollars for sewer rehabilitation and related projects within the City. The City is continuing to invest in a new remote metering system that will continue to reduce water loss, shorten billing time, and eliminate human error. It is anticipated these projects will be completed in fiscal year 2005-2006.

Economic Factors and Next Year's Budgets and Rates

The City was able once again to maintain its property tax millage at 21 mills for 2004-2005. This was accomplished through departmental restructuring, personnel attrition, and the budgeted use of fund balance. As stated in last year's discussion, because of the limits of Proposal A, the City will need to monitor the budget very closely. The State-wide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation, or 5 percent. Because some properties increase in value by less than inflation, the mathematical result is the total taxable value for the City growing less than inflation, before considering new property additions. With over 75 percent of the General Fund's revenues derived from property taxes, the administration will continue to monitor this closely.

With the anticipated completion of the sewer system project in the near future, attention will not only need to be focused on the operation and maintenance of the new assets but on how to fund other noneligible sewer projects which did not qualify for state revolving funds. The operation and maintenance plan of City sewers is a new budgeted expenditure of over \$725,000 for fiscal year 2005-2006.

The City continues to search for alternative sources of new revenue as well as cost reductions to be able to balance future budgets. A major development in the north end of the City is close to reality and could boost taxable value by approximately \$300,000,000. Health care proposals continue to be reviewed with various carriers to find the most cost effective plan.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, and customers with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Controller's office.

City of Trenton, Michigan

Statement of Net Assets June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 15,000,941	\$ 1,551,709	\$ 16,552,650	\$ 683,225
Receivables:				
Taxes	554,527	8,122	562,649	-
Customers	-	1,811,427	1,811,427	-
Other	312,698	28,171	340,869	-
Due from other governmental units	577,660	119,085	696,745	288,000
Inventories	139,277	80,920	220,197	-
Long-term advances and other assets	878,443	-	878,443	-
Restricted assets (Note 4)	-	3,882,420	3,882,420	290,665
Capital assets - Net (Note 5)	<u>17,531,767</u>	<u>68,827,772</u>	<u>86,359,539</u>	<u>1,793,057</u>
 Total assets	 34,995,313	 76,309,626	 111,304,939	 3,054,947
Liabilities				
Accounts payable	1,238,606	409,243	1,647,849	18,527
Accrued and other liabilities	941,649	581,142	1,522,791	193,233
Due to other governmental units	28,732	-	28,732	-
Current liabilities payable from restricted assets (Note 4)	-	1,010,521	1,010,521	290,665
Noncurrent liabilities (Note 7):				
Due within one year	1,927,953	1,788,226	3,716,179	65,000
Due in more than one year	<u>4,242,697</u>	<u>51,348,939</u>	<u>55,591,636</u>	<u>2,270,000</u>
 Total liabilities	 <u>8,379,637</u>	 <u>55,138,071</u>	 <u>63,517,708</u>	 <u>2,837,425</u>
Net Assets				
Invested in capital assets - Net of related debt	14,325,119	17,588,313	31,913,432	-
Restricted:				
Major and local streets	1,231,441	-	1,231,441	-
Community development block grant	64,633	-	64,633	-
Grant	148,910	-	148,910	-
Library	210,790	-	210,790	-
Capital expenditures	-	1,283,298	1,283,298	-
Unrestricted	<u>10,634,783</u>	<u>2,299,944</u>	<u>12,934,727</u>	<u>217,522</u>
 Total net assets	 \$ 26,615,676	 \$ 21,171,555	 \$ 47,787,231	 \$ 217,522

City of Trenton, Michigan

	Program Revenues			
	Charges for	Operating	Capital Grants	
Expenses	Services	Grants and Contributions	and Contributions	
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 4,708,027	\$ 640,372	\$ 127,465	\$ 20,962
Public safety	10,178,520	872,829	2,336	36,217
Public works	5,191,760	83,280	1,029,107	1,316,637
Health and welfare	30	-	-	-
Community and economic development	654,519	-	120,252	-
Recreation and culture	555,579	548,603	-	42,597
Special projects	649,714	248,518	33,280	-
Interest on long-term debt	140,925	-	-	-
Total governmental activities	22,079,074	2,393,602	1,312,440	1,416,413
Business-type activities:				
Water and sewer	6,135,799	5,003,979	-	563,604
Recreation	2,213,377	1,510,065	-	-
Total business-type activities	8,349,176	6,514,044	-	563,604
Total primary government	<u>\$ 30,428,250</u>	<u>\$ 8,907,646</u>	<u>\$ 1,312,440</u>	<u>\$ 1,980,017</u>
Component units:				
Downtown Development Authority	\$ 1,866,541	\$ -	\$ -	\$ 1,465,556
Brownfield Redevelopment Authority	2,474	-	-	-
Total component units	<u>\$ 1,869,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,465,556</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Loss on disposal of capital assets				
Miscellaneous income (expense)				
Transfers - Net (Note 6)				
Total general revenues and transfers				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (3,919,228)	\$ -	\$ (3,919,228)	\$ -
(9,267,138)	-	(9,267,138)	-
(2,762,736)	-	(2,762,736)	-
(30)	-	(30)	-
(534,267)	-	(534,267)	-
35,621	-	35,621	-
(367,916)	-	(367,916)	-
(140,925)	-	(140,925)	-
(16,956,619)	-	(16,956,619)	-
-	(568,216)	(568,216)	-
-	(703,312)	(703,312)	-
-	(1,271,528)	(1,271,528)	-
(16,956,619)	(1,271,528)	(18,228,147)	-
-	-	-	(400,985)
-	-	-	(2,474)
-	-	-	(403,459)
14,502,916	2,500,780	17,003,696	595,210
2,275,314	-	2,275,314	-
463,102	53,222	516,324	21,914
(372,115)	-	(372,115)	-
155,879	(266)	155,613	1,099
(250,000)	250,000	-	-
16,775,096	2,803,736	19,578,832	618,223
(181,523)	1,532,208	1,350,685	214,764
26,797,199	19,639,347	46,436,546	2,758
\$ 26,615,676	\$ 21,171,555	\$ 47,787,231	\$ 217,522

City of Trenton, Michigan

Governmental Funds Balance Sheet June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 7,975,616	\$ 4,930,223	\$ 12,905,839
Receivables:			
Taxes	552,663	1,864	554,527
Other	94,427	231,001	325,428
Due from other governmental units	284,683	292,977	577,660
Inventories	55,274	-	55,274
Long-term advances	865,000	-	865,000
Total assets	<u>\$ 9,827,663</u>	<u>\$ 5,456,065</u>	<u>\$ 15,283,728</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 644,111	\$ 246,726	\$ 890,837
Accrued and other liabilities	304,607	306,451	611,058
Due to other governmental units	28,732	-	28,732
Total liabilities	977,450	553,177	1,530,627
Fund Balances			
Reserved for:			
Long-term advances	865,000	-	865,000
Inventory	55,274	-	55,274
Unreserved:			
General Fund (Note 1)	7,929,939	-	7,929,939
Special Revenue Funds	-	3,193,798	3,193,798
Capital Projects Fund	-	1,709,090	1,709,090
Total fund balances	<u>8,850,213</u>	<u>4,902,888</u>	<u>13,753,101</u>
Total liabilities and fund balances	<u>\$ 9,827,663</u>	<u>\$ 5,456,065</u>	<u>\$ 15,283,728</u>
Fund Balance - Total Governmental Funds			\$ 13,753,101
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds			15,030,178
Long-term liabilities are not due and payable in the current period and are not reported in the funds			(3,652,427)
Receivables not collected within 60 days are expected to pay for current year's expenditures			150,984
Compensated absences and uninsured claims are included as a liability in governmental activities			(2,479,564)
Internal Service Funds are included as part of governmental activities			3,813,404
Net Assets of Governmental Activities			<u>\$ 26,615,676</u>

City of Trenton, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 13,780,372	\$ 722,544	\$ 14,502,916
Licenses and permits	365,755	-	365,755
Federal grants	-	197,465	197,465
State sources	2,275,314	1,062,387	3,337,701
Charges for services	644,299	-	644,299
Fines and forfeitures	382,342	-	382,342
Interest income	361,700	57,718	419,418
Other	298,080	831,970	1,130,050
Total revenue	18,107,862	2,872,084	20,979,946
Expenditures			
Current:			
General government	3,421,267	-	3,421,267
Public safety	8,627,929	-	8,627,929
Public works	3,562,248	1,057,891	4,620,139
Health and welfare	30	-	30
Recreation and culture	668,811	387,316	1,056,127
Other	1,266,141	1,446,602	2,712,743
Debt service	38,602	465,700	504,302
Total expenditures	17,585,028	3,357,509	20,942,537
Excess of Revenue Over (Under) Expenditures	522,834	(485,425)	37,409
Other Financing Sources (Uses)			
Transfers in	50,000	1,003,641	1,053,641
Transfers out	(1,245,600)	(658,041)	(1,903,641)
Issuance of debt	-	320,810	320,810
Total other financing sources (uses)	(1,195,600)	666,410	(529,190)
Net Change in Fund Balances	(672,766)	180,985	(491,781)
Fund Balances - Beginning of year	9,522,979	4,721,903	14,244,882
Fund Balances - End of year	<u>\$ 8,850,213</u>	<u>\$ 4,902,888</u>	<u>\$ 13,753,101</u>

City of Trenton, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds **\$ (491,781)**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs along with donated capital assets are allocated over their estimated useful lives as depreciation	1,428,899
Expense reported in statement of activities for loss on disposition of assets not reported in governmental funds	(359,566)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	150,984
Issuance of long-term debt is an other financing source in the governmental fund, but not the statement of activities (where it increases long-term debt)	(320,810)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	371,460
Decrease in accumulated severance pay, as well as estimated general liability claims, is recorded when earned in the statement of activities	113,854
Internal Service Funds are also included as governmental activities	<u>(1,074,563)</u>

Change in Net Assets of Governmental Activities **\$ (181,523)**

City of Trenton, Michigan

Proprietary Funds Statement of Net Assets (Deficit) June 30, 2005

	Major Business-type Activities			Governmental Activities
	Enterprise - Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Internal Service Funds
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,543,709	\$ 8,000	\$ 1,551,709	\$ 2,095,102
Receivables:				
Taxes	8,122	-	8,122	-
Customers	1,788,545	22,882	1,811,427	-
Due from other governmental units	119,085	-	119,085	-
Prepaid costs and other assets	28,171	-	28,171	713
Inventories	77,020	3,900	80,920	84,003
Total current assets	3,564,652	34,782	3,599,434	2,179,818
Noncurrent assets:				
Restricted assets (Note 4)	3,882,420	-	3,882,420	-
Capital assets (Note 5)	58,188,825	10,638,947	68,827,772	2,501,589
Total noncurrent assets	62,071,245	10,638,947	72,710,192	2,501,589
Total assets	65,635,897	10,673,729	76,309,626	4,681,407
Liabilities				
Current liabilities:				
Accounts payable	345,410	63,833	409,243	347,769
Accrued and other liabilities	46,821	534,321	581,142	481,575
Current liabilities payable from restricted assets (Note 4)	1,010,521	-	1,010,521	-
Current portion of long-term debt (Note 7)	1,410,457	377,769	1,788,226	19,725
Total current liabilities	2,813,209	975,923	3,789,132	849,069
Noncurrent liabilities:				
Provision for compensated absences (Note 7)	166,461	4,403	170,864	18,934
Long-term debt - Net of current portion (Note 7)	41,453,075	9,725,000	51,178,075	-
Total noncurrent liabilities	41,619,536	9,729,403	51,348,939	18,934
Total liabilities	44,432,745	10,705,326	55,138,071	868,003
Net Assets (Deficit)				
Investment in capital assets - Net of related debt	17,052,135	536,178	17,588,313	2,501,589
Restricted for capital expenditures	1,283,298	-	1,283,298	-
Unrestricted	2,867,719	(567,775)	2,299,944	1,311,815
Total net assets (deficit)	<u>\$ 21,203,152</u>	<u>\$ (31,597)</u>	<u>\$ 21,171,555</u>	<u>\$ 3,813,404</u>

City of Trenton, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2005

	Major Business-type Activities			Governmental Activities
	Enterprise - Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Internal Service Funds
Operating Revenue				
Sale of water	\$ 1,964,336	\$ -	\$ 1,964,336	\$ -
Sewage disposal charges	2,913,434	-	2,913,434	-
Charges for services	-	1,510,065	1,510,065	3,905,132
Other charges	158,815	-	158,815	26,682
Total operating revenue	5,036,585	1,510,065	6,546,650	3,931,814
Operating Expenses				
Cost of water	746,831	-	746,831	-
Cost of sewage disposal	1,200,425	-	1,200,425	-
Transmission and distribution	652,367	-	652,367	-
Cost of recreation activity	-	1,134,065	1,134,065	-
Depreciation	1,377,403	597,590	1,974,993	431,723
General and administrative	1,195,928	-	1,195,928	946,429
Postretirement contribution	-	-	-	600,000
Insurance, claims, and other	32,872	-	32,872	3,697,606
Total operating expenses	5,205,826	1,731,655	6,937,481	5,675,758
Operating Loss	(169,241)	(221,590)	(390,831)	(1,743,944)
Nonoperating Revenue (Expenses)				
Property taxes	2,500,780	-	2,500,780	-
Interest and other income (expenses) - Net	(909,623)	(481,722)	(1,391,345)	49,504
Customer capital charges	243,604	-	243,604	-
Loss on sale of capital assets	-	-	-	(12,549)
Income (Loss) - Before capital contributions and transfers	1,665,520	(703,312)	962,208	(1,706,989)
Capital Contributions	320,000	-	320,000	17,426
Transfers from (to) Other Funds	(50,000)	300,000	250,000	615,000
Change in Net Assets	1,935,520	(403,312)	1,532,208	(1,074,563)
Net Assets - Beginning of year	19,267,632	371,715	19,639,347	4,887,967
Net Assets (Deficit) - End of year	<u>\$ 21,203,152</u>	<u>\$ (31,597)</u>	<u>\$ 21,171,555</u>	<u>\$ 3,813,404</u>

City of Trenton, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Major Business-type Activities			Governmental Activities
	Enterprise - Water and Sewer	Enterprise - Recreation	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities				
Receipts from customers	\$ 4,849,402	\$ 1,508,312	\$ 6,357,714	\$ -
Charges for services	-	-	-	3,905,298
Payments to suppliers	(2,556,640)	(492,302)	(3,048,942)	(532,721)
Claims paid	-	-	-	(3,587,368)
Payments to employees	(1,237,566)	(441,955)	(1,679,521)	(432,618)
Postretirement contributions	-	-	-	(600,000)
Other receipts	-	-	-	26,682
Net cash provided by (used in) operating activities	1,055,196	574,055	1,629,251	(1,220,727)
Cash Flows from Investing Activities -				
Interest received on investments and other assets	53,222	-	53,222	49,504
Cash Flows from Noncapital Financing Activities -				
Operating transfers (out) in - Net	(50,000)	300,000	250,000	615,000
Cash Flows from Capital and Related Financing Activities				
Interest paid on long-term debt - Net of capitalized interest	(962,845)	(481,722)	(1,444,567)	-
Principal payments on long-term debt	(1,720,100)	(300,000)	(2,020,100)	-
Proceeds from issuance and drawdowns of long-term debt*	4,790,713	-	4,790,713	-
Purchases of capital assets	(5,426,089)	(1,436,180)	(6,862,269)	(460,980)
Proceeds from sale of assets	-	-	-	46,821
Collection of capital charges and capital contributions	563,604	-	563,604	-
Property taxes	2,500,780	-	2,500,780	-
Net cash used in capital and related financing activities	(253,937)	(2,217,902)	(2,471,839)	(414,159)
Net Change in Cash and Cash Equivalents	804,481	(1,343,847)	(539,366)	(970,382)
Cash and Cash Equivalents - Beginning of year	2,038,632	1,351,847	3,390,479	3,065,484
Cash and Cash Equivalents - End of year	<u>2,843,113</u>	<u>\$ 8,000</u>	<u>\$ 2,851,113</u>	<u>\$ 2,095,102</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and cash equivalents	\$ 1,543,709	\$ 8,000	\$ 1,551,709	\$ 2,095,102
Restricted cash and cash equivalents	1,299,404	-	1,299,404	-
Total	<u>\$ 2,843,113</u>	<u>\$ 8,000</u>	<u>\$ 2,851,113</u>	<u>\$ 2,095,102</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities				
Operating loss	\$ (169,241)	\$ (221,590)	\$ (390,831)	\$ (1,743,944)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation	1,377,403	597,590	1,974,993	431,723
Changes in assets and liabilities:				
Receivables	(187,183)	(1,753)	(188,936)	-
Prepaid costs and other assets	(28,171)	-	(28,171)	72,403
Inventory	(1,479)	(790)	(2,269)	-
Accounts payable	87,837	(207,144)	(119,307)	42,594
Accrued and other liabilities	(23,970)	407,742	383,772	(23,503)
Net cash provided by (used in) operating activities	<u>\$ 1,055,196</u>	<u>\$ 574,055</u>	<u>\$ 1,629,251</u>	<u>\$ (1,220,727)</u>

* The drawdowns of long-term debt relate to debt obligations initiated and recognized in the current as well as prior years.

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2005, other funds of the City purchased vehicles and equipment totaling \$17,426 and donated them to the Motor Vehicle Pool Fund. Accounts payable at June 30, 2005 of \$436,999 in the Water and Sewer Fund represents construction in progress and has been excluded from the purchases of capital assets. In total, the Water and Sewer Fund has obtained financing of approximately \$46,080,000, of which approximately \$4,791,000 and \$38,767,000 was drawn down in 2005 and in prior years, respectively. The remaining balance will be drawn down in future years.

City of Trenton, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2005

	Pension and Other Employee Benefit Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 3)	\$ 1,048,571	\$ 137,981
Investments (Note 3):		
U.S. government and agency securities	3,489,034	-
Corporate stocks	25,228,805	-
Corporate bonds	4,101,970	-
Foreign equities and equity mutual fund	6,874,614	-
U.S. agency mortgage pools	230,303	-
Bond mutual funds	2,453,173	-
Equity mutual funds	4,906,240	-
Limited partnership interest	401,884	-
Real estate (REIT) fund interest	1,775,829	-
Contributions receivable	110,708	-
Accrued interest	119,003	146,592
Total assets	50,740,134	<u><u>\$ 284,573</u></u>
Liabilities		
Accrued and other liabilities	-	\$ 191,457
Cash bonds and deposits	-	93,116
Total liabilities	-	<u><u>\$ 284,573</u></u>
Net Assets - Held in trust for pension and retiree health care	<u><u>\$ 50,740,134</u></u>	

City of Trenton, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2005

Additions

Investment income:	
Interest and dividends	\$ 1,581,993
Net increase in fair value of investments	4,603,156
Less investment expenses	<u>(264,546)</u>
Net investment income	5,920,603
Contributions:	
Employer	1,754,506
Employee	<u>220,552</u>
Total contributions	<u>1,975,058</u>
Total additions	7,895,661

Deductions

Benefit payments	3,340,250
Administrative expenses	<u>26,656</u>
Total deductions	<u>3,366,906</u>

Net Increase 4,528,755

Net Assets Held in Trust for Pension and Retiree Health Care

Beginning of year	<u>46,211,379</u>
End of year	<u><u>\$ 50,740,134</u></u>

City of Trenton, Michigan

Component Units Statement of Net Assets (Deficit) June 30, 2005

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Assets			
Cash and investments (Note 3)	\$ 646,398	\$ 36,827	\$ 683,225
Due from other governmental units	288,000	-	288,000
Restricted assets (Note 4)	290,665	-	290,665
Capital assets - Net (Note 5)	<u>1,793,057</u>	<u>-</u>	<u>1,793,057</u>
Total assets	3,018,120	36,827	3,054,947
Liabilities			
Accounts payable	18,527	-	18,527
Accrued liabilities	193,233	-	193,233
Current liabilities payable from restricted assets (Note 4)	290,665	-	290,665
Noncurrent liabilities (Note 7):			
Due within one year	45,000	20,000	65,000
Due in more than one year	<u>2,225,000</u>	<u>45,000</u>	<u>2,270,000</u>
Total liabilities	<u>2,772,425</u>	<u>65,000</u>	<u>2,837,425</u>
Net Assets (Deficit) - Unrestricted	<u>\$ 245,695</u>	<u>\$ (28,173)</u>	<u>\$ 217,522</u>

City of Trenton, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority:				
Special projects	\$ 1,763,443	\$ -	\$ -	\$ 1,465,556
Interest expense	103,098	-	-	-
Brownfield Redevelopment Authority:				
Special projects	758	-	-	-
Interest expense	1,716	-	-	-
Total governmental activities	<u><u>\$ 1,869,015</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,465,556</u></u>

General revenues:
Property taxes
Interest
Miscellaneous revenue

Total general revenues

Change in Net Assets

Net Assets (Deficit) - July 1, 2004

Net Assets (Deficit) - June 30, 2005

**Component Units
Statement of Activities
Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets		
(Deficit)		
Downtown Development Authority	Brownfield Redevelopment Authority	Total
\$ (297,887)	\$ -	\$ (297,887)
(103,098)	-	(103,098)
-	(758)	(758)
-	(1,716)	(1,716)
(400,985)	(2,474)	(403,459)
551,857	43,353	595,210
21,078	836	21,914
1,099	-	1,099
574,034	44,189	618,223
173,049	41,715	214,764
72,646	(69,888)	2,758
\$ 245,695	\$ (28,173)	\$ 217,522

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Trenton, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

Reporting Entity

The City is governed by an elected mayor and six-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

The City of Trenton Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government by blending it with the activities of the Recreation Fund because its primary purpose is to finance and construct the City's public buildings, including the Kennedy Recreation Center.

Discretely Presented Component Units - The following component units are reported within the component unit column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City.

The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the district. The Downtown Development Authority's governing body consists of the mayor and 11 individuals appointed by the mayor, subject to approval by the City Council.

Note I - Summary of Significant Accounting Policies (Continued)

The Brownfield Redevelopment Authority was created to facilitate the long-term redevelopment and remediation of environmentally contaminated sites within the City. The Brownfield Redevelopment Authority's governing body consists of the mayor and six individuals appointed by the mayor, subject to approval by the City Council.

Major Taxpayers

Approximately 37 percent of property tax revenue is from two companies with properties in the City of Trenton, and approximately 30 percent of water, sewer, and industrial charge revenue is from three businesses located in the City.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these financial statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the General Fund as a major governmental fund. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the activities of the water distribution and sewage collection system.
- The Recreation Fund accounts for activities of the recreation center.

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the City reports the following fund types:

- The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis. Included in this category are the Motor Vehicle Pool Fund and the Self-insurance Fund.
- The Pension Retirement Trust Fund accounts for the activities of the police and fire employees' retirement system, which accumulates resources for pension benefit payments to qualified police and fire employees.
- The Other Employee Benefit Trust Fund accounts for activities and accumulates resources associated with providing postemployment benefits to retirees.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note 1 - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Cash held in trust by the Cash Fund for other funds is reported in the financial statements as being held by the individual funds.

Investments - Investments are stated at fair value, based on quoted market prices. Investments that do not have an established market are reported at estimated fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. These taxes are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis, which approximates market value. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, approximately \$16,361 of interest expense was capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20 to 30 years
Water and sewer distribution systems	50 to 66 years
Water and sewer treatment facilities	50 years
Buildings and building improvements	15 to 50 years
Machinery, equipment, and furniture	7 to 20 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation, sick, and personal pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

City of Trenton, Michigan

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

The following is a summary of the unreserved fund balance of the General Fund with management's designations:

Designated:	
Equipment	\$ 1,000,000
Uninsured risks	600,000
Postretirement benefits	1,000,000
Severance pay	2,518,223
Future budget stabilization	735,039
Retiree health care	1,000,000
Receivables	647,090
Total designated	7,500,352
Undesignated	429,587
Total unreserved	\$ 7,929,939

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared by the City management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budgetary comparison schedule (non-GAAP budgetary basis) for the General Fund is included in the required supplemental information and is presented in greater detail than the accounting used in preparing the adopted budget. The budgets have been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The General Fund's current year other expenditures exceeded the amended budget due principally to an unanticipated refund of previously collected taxes. The adopted budget for the nonmajor Special Revenue Funds can be obtained from City Hall.

City of Trenton, Michigan

Notes to Financial Statements June 30, 2005

Note 2 - Stewardship, Compliance, and Accountability (Continued)

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenue and expenditures related to the building department function. As required under provisions of the Act, the City has adopted this accounting treatment. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Excess costs - Beginning of year	\$ (615,602)
Building permit revenue	190,686
Direct costs	<u>(414,181)</u>
Excess costs - End of year	<u>\$ (839,097)</u>

Fund Deficits - The Brownfield Redevelopment Authority component unit had a deficit at June 30, 2005. The deficit will be funded primarily by property tax collections or a transfer from another fund at the City. The Recreation Enterprise Fund also had a fund deficit at year end that will be funded primarily from charges for services.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Police and Fire Retirement System and the Retiree Health Care Trust Fund are also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$17,335,000 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Downtown Development Authority had approximately \$874,000 of bank deposits that were uninsured and uncollateralized. The City and Downtown Development Authority believe that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City and Downtown Development Authority evaluate each financial institution with which they deposit funds and assess the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the City's investment securities were uninsured, unregistered, and held by the City or an agent's trust department in the City's name.

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does restrict bond maturities to not exceed 30 years. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
U.S. government agency bonds	\$ 438,204	9.77 years
U.S. Treasury bills	2,980,067	6.12 years
Corporate bonds	2,290,248	6.75 years
Mortgage-backed securities	1,329,740	2.46 years
U.S. agency mortgage pools	229,666	1.75 years
Commercial paper	553,062	5.47 years
Bond mutual funds	2,453,173	1.81 years

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy limits investments in fixed income securities to bond ratings not less than Baa by Moody's and/or Bbb by Standard & Poor's. Short-term fixed income securities must have a minimum rating of A-1, P-1, or F-1 as defined by Moody's, Standard & Poor's, or Fitch's Rating Services. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Corporate bonds	\$ 278,509	A1	Moody's
Corporate bonds	401,862	A2	Moody's
Corporate bonds	221,728	A3	Moody's
Corporate bonds	18,832	Aa1	Moody's
Corporate bonds	79,991	Aa2	Moody's
Corporate bonds	295,634	Aa3	Moody's
Corporate bonds	128,901	Aaa	Moody's

City of Trenton, Michigan

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Investment	Fair Value	Rating	Rating Organization
Corporate bonds	473,488	Baa1	Moody's
Corporate bonds	294,964	Baa2	Moody's
Corporate bonds	96,339	Baa3	Moody's
U.S. government agency securities	3,647,937	Aaa	Moody's
Mortgage-backed securities	1,175,100	Aaa	Moody's
Mortgage-backed securities	126,595	A2	Moody's
Mortgage-backed securities	28,035	Aa2	Moody's
Commercial paper	553,062	Aaa	Moody's
Bond mutual funds	2,453,173	Aaa	Moody's

Concentration of Credit Risk

The City places a limit on the amount the district may invest in any one issuer equal to 5 percent. There was no investment in any one company or issuer greater than 5 percent at June 30, 2005.

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. The pension system limits total assets in international equities and mutual funds to 20 percent of the total pension system's market value. However, the internal equities and mutual funds of the police and fire pension plan were denominated in U.S. currency.

Note 4 - Restricted Assets

Through fiscal year ended June 30, 2005, the City has obtained \$46,080,000 of General Obligation State Revolving Fund Limited Tax Bond financing for improvements to the City's sewer system pursuant to an administrative consent order by the State of Michigan (see Note 13). The proceeds of these bonds are drawn down by the City as the funds are needed. Included in restricted assets, as an account receivable, is the amount that has not been drawn down to date.

The Grosse Ile/Trenton Utility Bond restricted assets represent unspent bond proceeds that have been restricted for construction, water and sewer line replacement, and capital asset acquisitions, including unspent proceeds earning interest, from the obligation to the Grosse Ile/Trenton Utilities Authority.

City of Trenton, Michigan

Notes to Financial Statements June 30, 2005

Note 4 - Restricted Assets (Continued)

The Water and Sewer Fund capital charges represent the portion of customer billings that the City intends to use for future capital expenditures in the Water and Sewer Fund.

The Debt Service restricted asset represents excess cash collected to the extent that property tax revenue exceeds annual debt service requirements of the State Revolving Fund General Obligation Limited Tax Bonds (see Note 8).

The Downtown Development Authority restricted asset represents cash that has been restricted for construction.

A summary of primary government and component unit restricted assets and current liabilities payable from restricted assets at June 30, 2005 follows:

	Primary Government					
	Water and Sewer Fund				Total Primary Government	Component Unit
	Administrative Consent Order Construction	Grosse Ile/ Trenton Utility Bonds	Capital Charges	Debt Service		Downtown Development Authority
Restricted assets:						
Cash	\$ 16,106	\$ 467,264	\$ 242,512	\$ 573,522	\$ 1,299,404	\$ 290,665
Accounts receivable	2,583,016	-	-	-	2,583,016	-
Total restricted assets	\$ 2,599,122	\$ 467,264	\$ 242,512	\$ 573,522	\$ 3,882,420	\$ 290,665
Current liabilities payable from restricted assets:						
Accounts payable	\$ 436,999	\$ -	\$ -	\$ -	\$ 436,999	\$ 290,665
Current portion of long-term debt	-	-	-	573,522	573,522	-
Total current liabilities payable from restricted assets	\$ 436,999	\$ -	\$ -	\$ 573,522	\$ 1,010,521	\$ 290,665

City of Trenton, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets

Capital asset activity of the City's governmental activities, business-type activities, and component unit was as follows:

	Balance July 1, 2004	Reclassifications and Transfers	Additions	Disposals	Balance June 30, 2005
Governmental activities:					
Capital assets not being depreciated:					
Construction in progress	\$ 242,395	\$ (242,395)	\$ -	\$ -	\$ -
Land	1,083,387	-	-	-	1,083,387
Subtotal	1,325,782	(242,395)	-	-	1,083,387
Capital assets being depreciated:					
Land improvements	2,179,126	242,395	1,691,988	(343,808)	3,769,701
Roads and sidewalks	17,889,876	-	-	-	17,889,876
Buildings and improvements	7,750,122	599,782	471,205	(1,007)	8,820,102
Vehicles	3,856,047	(893,771)	272,625	(387,856)	2,847,045
Furniture and equipment	6,780,822	293,989	325,017	(328,244)	7,071,584
Subtotal	38,455,993	242,395	2,760,835	(1,060,915)	40,398,308
Less accumulated depreciation	23,306,653	-	1,285,254	(641,979)	23,949,928
Net capital assets being depreciated	15,149,340	242,395	1,475,581	(418,936)	16,448,380
Net capital assets	\$ 16,475,122	\$ -	\$ 1,475,581	\$ (418,936)	\$ 17,531,767
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 13,500	\$ -	\$ -	\$ -	\$ 13,500
Construction in progress	2,126,252	(1,929,943)	3,308,962	-	3,505,271
Subtotal	2,139,752	(1,929,943)	3,308,962	-	3,518,771
Capital assets being depreciated:					
Land improvements	1,566,977	226,450	-	-	1,793,427
Water and sewer distribution systems	52,433,196	1,588,294	1,528,908	(50,000)	55,500,398
Treatment facilities	11,891,145	-	36,562	-	11,927,707
Buildings and building improvements	10,101,037	115,199	1,426,618	-	11,642,854
Machinery and equipment	1,498,192	60,000	275,439	(77,892)	1,755,739
Subtotal	77,490,547	1,989,943	3,267,527	(127,892)	82,620,125
Less accumulated depreciation	15,354,021	60,000	1,974,995	(77,892)	17,311,124
Net capital assets being depreciated	62,136,526	1,929,943	1,292,532	(50,000)	65,309,001
Net capital assets	\$ 64,276,278	\$ -	\$ 4,601,494	\$ (50,000)	\$ 68,827,772

City of Trenton, Michigan

Notes to Financial Statements June 30, 2005

Note 5 - Capital Assets (Continued)

Capital assets in the Downtown Development Authority component unit at June 30, 2005 consisted of \$1,793,057 of land improvements, including \$661,262 of current year additions. The improvements were placed in service subsequent to June 30, 2005.

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 400,285
Public safety	103,420
Public works	8,401
Recreation and culture	341,425
Internal Service Fund depreciation is charged to various functions based on their usage of the asset	<u>431,723</u>
Total governmental activities	<u>\$ 1,285,254</u>
Business-type activities:	
Water and sewer	\$ 1,377,405
Recreation	<u>597,590</u>
Total business-type activities	<u>\$ 1,974,995</u>

Note 6 - Interfund Transfers

The composition of interfund transfers at the fund level is as follows:

	Transfers Out			
	General Fund	Other Governmental Funds	Business-type Activities	Total
Transfers in:				
General Fund	\$ -	\$ -	\$ 50,000	\$ 50,000
Other governmental funds	345,600	658,041	-	1,003,641
Business-type activities	300,000	-	-	300,000
Internal Service Funds	<u>600,000</u>	<u>-</u>	<u>-</u>	<u>600,000</u>
Total	<u>\$ 1,245,600</u>	<u>\$ 658,041</u>	<u>\$ 50,000</u>	<u>\$ 1,953,641</u>

Transfers between the various funds represent payment from one fund to another without an equivalent return of goods or services to fund operations and projects accounted for in the respective funds.

City of Trenton, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government.

Long-term obligation activity can be summarized as follows:

	Maturing Through	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental activities:							
General obligation unlimited tax bonds - Library Bonds - Amount of issue - \$4,000,000	2013	3.900% - 5.875%	\$200,000 - \$500,000	\$ 3,200,000	\$ (250,000)	\$ 2,950,000	\$ 250,000
Installment purchase agreements:							
District Court (see Note 12) - Amount of issue - \$340,000 (City's estimated share)	2006	4.7%	Varies	74,052	(28,273)	45,779	24,219
Computer equipment and software - Amount of issue - \$320,810	2010	3.49%	\$16,041 - \$70,200	-	320,810 (64,162)	256,648	70,200
Vehicle and computer equipment - Amount of issue - \$1,551,952, paid monthly	2005	4.969%	\$29,025	29,025	(29,025)	-	-
Total installment purchase agreements				103,077	199,350	302,427	94,419
Other long-term obligations:							
Compensated absences				2,675,648	(157,425)	2,518,223	1,183,534
Uninsured claims				400,000	-	400,000	400,000
Total other long-term obligations				3,075,648	(157,425)	2,918,223	1,583,534
Total governmental activities				6,378,725	(208,075)	6,170,650	1,927,953
Business-type activities:							
General obligation bonds:							
Water and Sewer Fund Contractual Obligation - Related to Grosse Ile/Trenton Utilities Authority Bonds, Series B - Amount of issue - \$1,999,850	2018	4.20% - 6.25%	\$63,825 - \$148,925	1,733,913	(85,100)	1,648,813	95,738
State Revolving Fund Limited Tax Bonds - Program 5127-01 - Amount of issue - \$12,095,000	2021	2.5%	\$485,000 - \$760,000	10,645,000	(510,000)	10,135,000	520,000
State Revolving Fund Limited Tax Bonds - Program 5127-02 - Amount of issue - \$16,535,000	2022	2.5%	\$645,000 - \$1,035,000	15,230,000	(680,000)	14,550,000	695,000
State Revolving Fund Limited Tax Bonds - Program 5127-03 - Amount of issue - \$1,005,000	2024	2.5%	\$40,000 - \$65,000	965,000	(40,000)	925,000	40,000
State Revolving Fund Limited Tax Bonds - Program 5127-04 - Amount of issue - \$10,325,000	2024	2.5%	\$405,000 - \$650,000	10,325,000	(405,000)	9,920,000	415,000
State Revolving Fund Limited Tax Bonds - Program 5127-05 - Amount of issue - \$1,990,000	2025	2.5%	\$80,000 - \$125,000	1,990,000	-	1,990,000	80,000
State Revolving Fund Limited Tax Bonds - Program 5127-06 - Amount of issue - \$4,130,000	2026	2.5%	\$170,000 - \$250,000	-	4,130,000	4,130,000	-
Building Authority Bonds - Amount of issue - \$1,800,000	2022	3.00% - 4.60%	\$75,000 - \$140,000	1,800,000	-	1,800,000	75,000
Building Authority Bonds - Amount of issue - \$8,000,000	2022	5.125% - 5.625%	\$100,000 - \$650,000	7,700,000	(200,000)	7,500,000	200,000
Total general obligations bond				50,388,913	2,209,900	52,598,813	2,120,738

City of Trenton, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

Business-type activities (Continued):

Other long-term obligations:

Advance from General Fund*

Amount of issue - \$1,000,000

2013 5.125% - 5.625% Varies \$ 900,000 \$ (100,000) \$ 800,000 \$ 100,000

Compensated absences

333,958 (22,084) 311,874 141,010

Total other long-term liabilities

1,233,958 (122,084) 1,111,874 241,010

Total business-type activities**

51,622,871 2,087,816 53,710,687 2,361,748

Total governmental activities and business-type activities

\$ 58,001,596 \$ 1,879,741 \$ 59,881,337 \$ 4,289,701

Component units:

General obligation limited tax bonds - Downtown

Development Authority Bonds -

Amount of issue - \$1,400,000

2023 3.8% - 5.5% \$25,000 - \$100,000 \$ 1,375,000 \$ (25,000) \$ 1,350,000 \$ 25,000

General obligation limited tax bonds - Downtown

Development Authority Bonds -

Amount of issue - \$920,000

2024 3.8% - 5.5% \$20,000 - \$90,000 920,000 - 920,000 20,000

Other long-term obligations - Brownfield Authority

Advance from General Fund* -

Amount of issue - \$135,000

2008 1.45% \$20,000 - \$23,628 95,000 (30,000) 65,000 20,000

Total component units

\$ 2,390,000 \$ (55,000) \$ 2,335,000 \$ 65,000

* The interest rate on the advances will be reduced to the average interest rate earned by the City whenever it is lower than the stated rate. Additionally, the maturity of these obligations may be affected by the operating results of the Recreation Fund.

** Business-type activities long-term debt of \$53,398,813 includes \$573,522 of current liabilities payable from restricted assets (see Note 4).

Approximately 24.5 percent of the installment purchase agreement for computer equipment and software relates to the acquisition of computer equipment and software on behalf of the Shared Information Network Consortium (S.I.N.C.), a Special Revenue Fund. The City expects that this percentage of the debt service will be provided by S.I.N.C. The consortium, which is essentially a cost-sharing arrangement between six communities including the City, will provide computer services to its member communities' law enforcement agencies. The consortium expects to obtain its required operating revenue from funds obtained from the District Court's technology fund. Any costs not covered by the technology fund will be funded by the participating communities.

The compensated absences liability represents the estimated liability to be paid to employees under the City's sick and vacation pay policy. Under the City's policy, employees earn sick and vacation time based on time of service with the City.

City of Trenton, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

The Water and Sewer Contractual Obligation represents the City's obligation to service a portion of a \$4,700,000 bond issued by the Grosse Ile - Trenton Utilities Authority representing the percentage of the total bond proceeds that was disbursed to the City for system construction projects. The City's transactions with the Authority are limited to the issuance and repayment of this obligation (see Note 12).

The Downtown Development Authority Bonds represent monies to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the district. The City has pledged its full faith and credit in support of these obligations.

The long-term advance from the General Fund to the Recreation Fund represents monies advanced to cover a portion of the costs associated with constructing the new Kennedy Recreation Center. The advance is to be repaid, with interest, from available operating revenues of the Recreation Fund.

The long-term advance from the General Fund to the Brownfield Redevelopment Authority represents monies advanced to cover a portion of the costs associated with long-term redevelopment and remediation of environmentally contaminated sites within the Brownfield District. The advance is to be repaid, with interest, from property taxes captured by the Brownfield Redevelopment Authority.

Annual debt service requirements, exclusive of compensated absences and uninsured claims, to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 338,381	\$ 129,474	\$ 467,855	\$ 2,120,738	\$ 1,628,890	\$ 3,749,628	\$ 65,000	\$ 101,293	\$ 166,293
2007	385,722	112,592	498,314	2,385,738	1,467,133	3,852,871	75,000	98,950	173,950
2008	414,162	95,614	509,776	2,510,347	1,397,017	3,907,364	95,000	95,813	190,813
2009	414,162	77,887	492,049	2,622,571	1,322,079	3,944,650	75,000	91,988	166,988
2010	400,000	59,700	459,700	2,669,676	1,244,662	3,914,338	75,000	88,588	163,588
2011-2015	1,300,000	79,950	1,379,950	15,013,085	4,947,680	19,960,765	520,000	386,533	906,533
2016-2020	-	-	-	16,900,800	2,488,785	19,389,585	790,000	239,372	1,029,372
2021-2025	-	-	-	8,925,858	235,099	9,160,957	640,000	52,741	692,741
2026-2028	-	-	-	250,000	-	250,000	-	-	-
Total	\$ 3,252,427	\$ 555,217	\$ 3,807,644	\$ 53,398,813	\$ 14,731,345	\$ 68,130,158	\$ 2,335,000	\$ 1,155,278	\$ 3,490,278

Total interest expense incurred by the City for the year approximated \$1,567,000, including approximately \$16,000 of interest capitalized in business-type activities.

City of Trenton, Michigan

Notes to Financial Statements June 30, 2005

Note 7 - Long-term Debt (Continued)

The General Obligation Limited Tax Bonds accrue interest only on the amount drawn down to date; therefore, the annual debt service requirements for interest expense assumes the City will draw down the entire amount of the total \$46,080,000 original balance of the General Obligation Limited Tax Bonds at the beginning of the next fiscal year. The actual amount of interest and principal paid may be less.

Subsequent to year end, the City refinanced the \$8,000,000 Building Authority Bonds.

Note 8 - Property Taxes

Property taxes for the City are comprised of the following components:

	General Fund			Special Revenue Fund		Enterprise Fund	
	Firemen and Policemen Pension Plan	Solid Waste	Operating	Other Tax Collection and Trailer Park Fees	Library Operating and Library Debt	Total Governmental Activities	Sewer Debt
Millage rate	1.3730	1.4575	14.2749	-	0.8826	17.9880	3.0120
Total	\$ 1,092,992	\$ 1,160,259	\$ 11,363,697	\$ 163,424	\$ 722,544	\$ 14,502,916	\$ 2,500,780

The firemen and policemen pension plan, solid waste, library operating and debt service, and sewer debt mills were approved specifically for the use in funding a pension plan, providing particular services by the City, and funding certain debt service requirements. To the extent that property taxes levied for sewer debt exceeded the related debt service expenditures, the revenue has been included in restricted assets of the Water and Sewer Fund and net assets have been restricted.

Note 9 - Postemployment Benefits

The City provides life insurance and health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 192 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care and life insurance benefits are recognized as the insurance premiums become due. These benefits totaled approximately \$1,713,000 for the year ended June 30, 2005.

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 10 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal League (risk pool) for claims relating to property loss, general liability, and workers' compensation. The City has also assumed a significant amount of financial responsibility for its actual incurred medical claims cost, subject to certain insured aggregate limitations of \$75,000 per specific claim and approximately \$2,500,000 in the aggregate.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Risk Management (Continued)

The City estimates the liability for medical and other claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are generally recorded in the Self-insurance Internal Service Fund. Changes in the estimated liability are as follows:

	2005	2004
Estimated liability - Beginning of year	\$ 851,789	\$ 790,127
Estimated claims incurred, including charges in estimates and related administrative costs	3,086,827	3,140,952
Claim and related administrative payments	<u>(3,069,722)</u>	<u>(3,079,290)</u>
Estimated liability - End of year	<u>\$ 868,894</u>	<u>\$ 851,789</u>

A total of \$400,000 of the estimated liability has been recorded in long-term debt (see Note 7). The remaining liability represents the accrual for claims incurred but not reported and is recorded in accrued and other liabilities.

Note 11 - Pension Plans

Defined Benefit Plans Descriptions

Municipal Employees' Retirement System of Michigan - The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City hired before January 1, 1996, other than firemen and policemen. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The MERS issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, MI 48917.

Note 11 - Pension Plans (Continued)

Firemen and Policemen Retirement System - The City contributes to the Firemen and Policemen Retirement System, which is the administrator of a single-employer public benefit pension plan that currently covers substantially all full-time fire and police employees hired before January 1, 1996. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, membership consisted of 93 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 61 current active employees. The plan does not issue a separate financial report.

Defined Benefit Contributions and Funding Status

Municipal Employees' Retirement System of Michigan - Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of approximately 3 percent to 5 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Firemen and Policemen Retirement System - Contributions - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent. Administrative costs of the plan are financed through investment earnings.

Note 11 - Pension Plans (Continued)

Defined Benefit Annual Pension Cost

For the year ended June 30, 2005, the City's annual pension cost of \$544,173 for the MERS plan, exclusive of \$164,423 of employee contributions, was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, (c) additional projected salary increases of 0 percent to 4.16 percent per year, attributable to seniority/merit, and (d) postretirement benefit increases of 2.5 percent annually, limited cumulative to increases in the Consumer Price Index. Both (a) and (b) include an inflation component of 4.5 percent.

The actuarial value of assets was determined on the basis of a valuation method that uses techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll determined using the individual attained age actuarial funding method over an open amortization period of 30 years.

For the year ended June 30, 2005, the City's annual Firemen and Policemen Retirement System's pension cost for the plan and its actual contribution, exclusive of \$220,552 of employee contributions, were equal to the City's \$1,154,506 required contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2003, using the aggregate actuarial cost method. Significant actuarial assumptions used include (a) an 8.5 percent investment rate of return per year through 2005, graded to 7.0 percent in 2015 and thereafter, (b) projected salary increases of 4.0 percent per year, (c) additional projected salary increases of .2 percent to 2.3 percent per year, attributable to seniority/merit, and (d) postretirement benefit increases of 10 percent after five years, 10 percent after 10 years, and 5 percent after 15 years. Both (a) and (b) include an inflation component of 4.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is eight years at June 30, 2005.

Reserves - As of June 30, 2005, the Firemen and Policemen Retirement System plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 3,684,789
Reserve for retired benefit payments	27,116,015

Note 11 - Pension Plans (Continued)

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2003	2004	2005
Municipal Employees' Retirement System of Michigan:			
Annual pension costs (APC)	\$ 471,761	\$ 530,173	\$ 544,173
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$ 27,303,494	\$ 28,356,684	\$ 29,028,412
Actuarial accrued liability (AAL)	\$ 33,618,861	\$ 35,988,807	\$ 37,865,871
Unfunded AAL (UAAL)	\$ 6,315,367	\$ 7,632,123	\$ 8,837,459
Funded ratio	81%	79%	77%
Covered payroll	\$ 3,783,905	\$ 3,699,558	\$ 3,235,182
UAAL as a percentage of covered payroll	167%	206%	273%
Firemen and Policemen Retirement System:			
Annual pension costs (APC)	\$ 695,508	\$ 883,109	\$ 1,154,506
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Defined Contribution Pension Plans

Full-time employees hired after January 1, 1996 (except the AFSCME Local 292, for which the effective date was July 1, 1996) do not become members of either of the two defined benefit pension plans discussed above. Rather, they participate in one of the City's two defined contribution plans: the General Employees' Money Purchase Plan ("General Employees Plan") or the City of Trenton Fire Fighters and Police Officers Money Purchase Plan ("Fire Fighters and Police Officers Plan"). In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

As established by various employee competitive bargaining units, the City contributes 6 percent and 12 percent of employees' gross earnings for the General Employees Plan and Fire Fighters and Police Officers Plan, respectively, and the employees contribute 6 percent of earnings for both plans. The City's contributions for each employee plus interest allocated to the employee's account are fully vested after five years of service.

Note 11 - Pension Plans (Continued)

In accordance with these requirements, the City contributed \$98,274 and \$77,277 during the current year and the employees contributed \$98,274 and \$38,639 during the current year for the General Employees Plan and Fire Fighters and Police Officers Plan, respectively. The plans' assets, which aggregated \$1,725,163 at June 30, 2005, are held by an independent third-party administrator.

Note 12 - Joint Ventures

33rd District Court System

The City is a member of the 33rd District Court System (the "District Court"), which provides judicial services to the City and various other surrounding communities. The City appoints one member to the joint venture's governing board, which then approves the annual budget.

During the current year, the District Court paid approximately \$11,000 to the City, representing the City's share of the District Court's net activity. Complete financial statements are available at the City offices. The District Court receives its operating revenue principally through contributions from member communities, fines, and forfeitures.

The City and various other surrounding communities have previously entered into an installment purchase agreement with a bank on behalf of the District Court.

The communities collectively agreed to finance the construction of an addition to the District Court for a total cost of \$2,000,000, with interest and principal payments on the related installment obligation payable through June 30, 2006.

The intention of the District Court is to make the monthly interest and principal payments on behalf of the communities. In the event payment of principal or interest is not received by the bank when due, each community will be responsible for its share.

Note 12 - Joint Ventures (Continued)

For each community, the share is the percentage of the total amount of any payment due equal to a fraction, the numerator of which is the total cases handled by the District Court for that community from January 1 to December 31 of the year immediately preceding the year in which the payment is due, and the denominator of which is the total number of cases handled by the District Court for the same time period. The share for the City through June 30, 2005 is approximately 17 percent. The City's share of the future principal and interest payments for the District Court debt is estimated based on this calculated percentage. Principal and interest payments made by the District Court on the City's behalf during the year approximated \$30,000.

The District Court has set aside certain funds of the City in anticipation of its future debt requirements. The City has not recorded these amounts held by the District Court since it is not anticipated that they will be made available currently nor can they be used for purposes other than debt retirement.

Grosse Ile-Trenton Utilities Authority

The City is also a member of the Grosse Ile-Trenton Utilities Authority (the "Authority") joint venture. The Authority's governing body is composed of two appointees, one from each member of the joint venture. The Authority was established in order to provide an efficient means of acquiring and constructing water supply and sewage disposal systems and to extend use privileges to each other's residents where deemed appropriate by the communities.

Note 13 - Commitment

The City is currently under an Administrative Consent Order (A.C.O.) by the State of Michigan to eliminate sanitary sewer overflows to the Detroit River. This is estimated to be a 10-year project to evaluate the entire system, identify the deficiencies, and to develop corrective plans for construction. At this time, it is estimated that the remaining costs of construction and rehabilitation to the system will be approximately \$3,000,000. The City has currently obtained State Revolving Fund General Obligation Limited Tax Bonds totaling \$46,080,000 to fund the costs associated with this project. See Note 7 for further details regarding these obligations. This project is currently ongoing, and the City has incurred approximately \$48,100,000 of related construction expenditures through June 30, 2005.

Required Supplemental Information

City of Trenton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 7,955,858	\$ 9,522,979	\$ 9,522,979	\$ -
Resources (Inflows)				
Property taxes	14,095,906	14,095,906	13,780,372	(315,534)
Licenses and permits	348,300	348,300	365,755	17,455
State sources	2,130,000	2,130,000	2,275,314	145,314
Charges for services	561,950	561,950	644,299	82,349
Fines and forfeitures	347,500	347,500	382,342	34,842
Interest income	138,638	138,638	361,700	223,062
Other	444,100	444,100	298,080	(146,020)
Transfer from other funds	50,000	50,000	50,000	-
Total resources (inflows)	18,116,394	18,116,394	18,157,862	41,468
Charges to Appropriations (Outflows)				
General government:				
Mayor and Council	116,006	116,006	106,257	9,749
District Court	368,000	368,000	368,748	(748)
City Administrator	360,251	360,251	363,854	(3,603)
City Clerk - Elections	45,057	45,057	32,644	12,413
City Assessor	195,971	267,971	268,303	(332)
City Attorney	191,000	191,000	174,456	16,544
City Clerk - General	182,854	182,854	186,919	(4,065)
City Controller	310,037	310,037	285,185	24,852
Tax Review Board	1,960	1,960	1,265	695
City Treasurer	172,616	172,616	170,920	1,696
Municipal buildings/facilities	1,254,728	1,254,728	1,193,991	60,737
Planning Commission	14,200	14,200	17,345	(3,145)
Zoning Board of Appeals	1,520	1,520	830	690
Building Board of Appeals	390	390	145	245
Central office	237,227	237,227	250,405	(13,178)
Total general government	3,451,817	3,523,817	3,421,267	102,550
Public safety:				
Police department	4,496,994	4,496,994	4,567,150	(70,156)
Traffic Safety Commission	1,150	1,150	555	595
Fire department	3,421,840	3,421,840	3,367,258	54,582
Emergency	153,473	153,473	147,844	5,629
Corrections department/jail	40,000	40,000	38,025	1,975
Building inspection	446,742	446,742	414,181	32,561
Civil defense	18,907	18,907	19,233	(326)
Crossing guards	71,973	71,973	73,683	(1,710)
Total public safety	8,651,079	8,651,079	8,627,929	23,150

Note - The above General Fund charges to appropriations (outflows) - budget and actual is for additional information only, and represents greater detail than the adopted budget, except for department totals.

City of Trenton, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Charges to Appropriations (Outflows) (Continued)				
Public works:				
Department of Public Works	\$ 1,394,117	\$ 1,309,117	\$ 1,201,609	\$ 107,508
City engineer	535,263	535,263	496,433	38,830
Street lighting	601,000	601,000	596,200	4,800
Sanitation	1,130,778	1,215,778	1,195,779	19,999
Protection to animals	90,550	90,550	72,227	18,323
Total public works	3,751,708	3,751,708	3,562,248	189,460
Health and welfare - Environmental Control				
Commission	500	500	30	470
Culture and recreation:				
Parks department	630,773	632,340	617,379	14,961
Cultural Center	23,780	23,780	25,001	(1,221)
Historical Commission	5,400	5,400	4,950	450
Library Commission	500	500	475	25
Cultural Commission	4,580	4,580	4,016	564
Recreation Commission	1,550	1,550	1,350	200
Civic Commission	16,500	16,500	14,184	2,316
Beautification Commission	2,535	2,535	1,456	1,079
Total culture and recreation	685,618	687,185	668,811	18,374
Other	884,685	811,118	1,266,141	(455,023)
Debt service	45,387	45,387	38,602	6,785
Transfers to other funds	1,245,600	1,245,600	1,245,600	-
Total charges to appropriations (outflows)	18,716,394	18,716,394	18,830,628	(114,234)
Fund Balance - End of year	\$ 7,355,858	\$ 8,922,979	\$ 8,850,213	\$ (72,766)

Note - The above General Fund charges to appropriations (outflows) - budget and actual is for additional information only, and represents greater detail than the adopted budget, except for department totals.

City of Trenton, Michigan

Required Supplemental Information Pension System Schedule of Funding Progress* June 30, 2005

Actuarial Valuation Date		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
<u>Firemen and Policemen Retirement System</u>							
6/30/99	(1)	\$ 41,705,805	\$ 41,705,805	\$ -	100%	\$ 4,249,463	0%
6/30/00	(2)	44,798,847	44,798,847	-	100%	4,656,993	0%
6/30/01		46,679,422	46,679,422	-	100%	4,606,237	0%
6/30/02		46,492,395	46,492,395	-	100%	4,521,806	0%
6/30/03		45,598,928	45,598,928	-	100%	4,364,481	0%
6/30/04		45,716,012	45,716,012	-	100%	4,132,159	0%

(1) Change to aggregate funding method

(2) Revised actuarial assumptions or methods

* Required by Governmental Accounting Standards Board Statement No. 25

City of Trenton, Michigan

Required Supplemental Information Pension System Schedule of Employer Contributions June 30, 2005

Firemen and Policemen Retirement System

<u>Fiscal Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
06/30/00	06/30/98	\$ 857,580	100
06/30/01	06/30/99	640,555	100
06/30/02	06/30/00	741,372	100
06/30/03	06/30/01	695,508	100
06/30/04	06/30/02	883,109	100
06/30/05	06/30/03	1,154,506	100

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2003, the latest actuarial valuation date for the Firemen and Policemen Retirement System, is as follows:

Firemen and Policemen Retirement System

Actuarial cost method	Aggregate actuarial cost method
Amortization method	Level over future working lifetime
Remaining amortization period	9 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.5% through 2005, graded to 7% at 13 years and thereafter
Projected salary increases*	4.2% - 6.3%
*Includes inflation at	4.0%
Postretirement benefit increases	10% after 5 years, 10% after 10 years, and 5% after 15 years

Other Supplemental Information

City of Trenton, Michigan

	Special Revenue Funds					
	Major Roads	Local Roads	Community Development Block Grant	Severance Pay	Special Projects	Grant
Assets						
Cash and investments	\$ 848,333	\$ 257,410	\$ 30,900	\$ 1,084,930	\$ 557,519	\$ 119,539
Receivables	166,526	50,212	34,102	-	-	58,964
Total assets	<u>\$ 1,014,859</u>	<u>\$ 307,622</u>	<u>\$ 65,002</u>	<u>\$ 1,084,930</u>	<u>\$ 557,519</u>	<u>\$ 178,503</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 5,474	\$ 74,934	\$ 369	\$ -	\$ 19,046	\$ 29,593
Accrued and other liabilities	4,797	5,835	-	143,967	-	-
Total liabilities	10,271	80,769	369	143,967	19,046	29,593
Fund Balances - Unreserved and undesignated	<u>1,004,588</u>	<u>226,853</u>	<u>64,633</u>	<u>940,963</u>	<u>538,473</u>	<u>148,910</u>
Total liabilities and fund balances	<u>\$ 1,014,859</u>	<u>\$ 307,622</u>	<u>\$ 65,002</u>	<u>\$ 1,084,930</u>	<u>\$ 557,519</u>	<u>\$ 178,503</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2005**

Library	S.I.N.C.	Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 302,835	\$ 19,667	\$ 1,709,090	\$ 4,930,223
19,139	196,899	-	525,842
<u>\$ 321,974</u>	<u>\$ 216,566</u>	<u>\$ 1,709,090</u>	<u>\$ 5,456,065</u>
\$ 110,316	\$ 6,994	\$ -	\$ 246,726
868	150,984	-	306,451
111,184	157,978	-	553,177
210,790	58,588	1,709,090	4,902,888
<u>\$ 321,974</u>	<u>\$ 216,566</u>	<u>\$ 1,709,090</u>	<u>\$ 5,456,065</u>

City of Trenton, Michigan

	Special Revenue					
	Major Roads	Local Roads	Community Development Block Grant	Severance Pay	Special Projects	Grant
Revenue						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal grants	-	-	70,000	-	-	127,465
State sources	718,711	310,396	-	-	-	33,280
Interest income	22,666	2,296	-	22,833	-	-
Other	50,279	-	50,252	-	301,532	111,878
Total revenue	791,656	312,692	120,252	22,833	301,532	272,623
Expenditures						
Current:						
Public works department	273,814	784,077	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Special projects	-	-	74,467	-	240,712	175,029
Other	-	-	-	431,693	-	-
Debt service	-	-	-	-	-	-
Total expenditures	273,814	784,077	74,467	431,693	240,712	175,029
Excess of Revenue Over (Under) Expenditures	517,842	(471,385)	45,785	(408,860)	60,820	97,594
Other Financing Sources (Uses)						
Issuance of debt	-	-	-	-	-	-
Transfers in	-	658,041	-	250,000	-	-
Transfers out	(658,041)	-	-	-	-	-
Total other financing sources (uses)	(658,041)	658,041	-	250,000	-	-
Net Change in Fund Balances	(140,199)	186,656	45,785	(158,860)	60,820	97,594
Fund Balances - Beginning of year	1,144,787	40,197	18,848	1,099,823	477,653	51,316
Fund Balances - End of year	\$ 1,004,588	\$ 226,853	\$ 64,633	\$ 940,963	\$ 538,473	\$ 148,910

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2005

Funds				
Library	S.I.N.C.	Capital Projects Fund	Total Nonmajor Governmental Funds	
\$ 722,544	\$ -	\$ -	\$ 722,544	
-	-	-	197,465	
-	-	-	1,062,387	
9,923	-	-	57,718	
<u>72,052</u>	<u>237,097</u>	<u>8,880</u>	<u>831,970</u>	
804,519	237,097	8,880	2,872,084	
-	-	-	1,057,891	
387,316	-	-	387,316	
-	437,390	72,523	1,000,121	
14,788	-	-	446,481	
<u>383,819</u>	<u>81,881</u>	<u>-</u>	<u>465,700</u>	
<u>785,923</u>	<u>519,271</u>	<u>72,523</u>	<u>3,357,509</u>	
18,596	(282,174)	(63,643)	(485,425)	
-	320,810	-	320,810	
-	-	95,600	1,003,641	
<u>-</u>	<u>-</u>	<u>-</u>	<u>(658,041)</u>	
-	320,810	95,600	666,410	
18,596	38,636	31,957	180,985	
<u>192,194</u>	<u>19,952</u>	<u>1,677,133</u>	<u>4,721,903</u>	
<u>\$ 210,790</u>	<u>\$ 58,588</u>	<u>\$ 1,709,090</u>	<u>\$ 4,902,888</u>	

City of Trenton, Michigan

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2005

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
Assets			
Current assets:			
Cash and investments	\$ 229,660	\$ 1,865,442	\$ 2,095,102
Prepaid costs and other assets	62	651	713
Inventories	84,003	-	84,003
Total current assets	313,725	1,866,093	2,179,818
Noncurrent assets - Capital assets	2,501,589	-	2,501,589
Total assets	2,815,314	1,866,093	4,681,407
Liabilities			
Current liabilities:			
Accounts payable	49,512	298,257	347,769
Accrued liabilities	10,743	470,832	481,575
Current portion of compensated absences	19,725	-	19,725
Total current liabilities	79,980	769,089	849,069
Noncurrent liabilities - Provision for compensated absences	18,934	-	18,934
Total liabilities	98,914	769,089	868,003
Net Assets			
Invested in capital assets	2,501,589	-	2,501,589
Unrestricted	214,811	1,097,004	1,311,815
Total net assets	<u>\$ 2,716,400</u>	<u>\$ 1,097,004</u>	<u>\$ 3,813,404</u>

City of Trenton, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2005

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
Operating Revenue			
Charges for services	\$ 1,123,246	\$ 2,781,886	\$ 3,905,132
Other	<u>1,146</u>	<u>25,536</u>	<u>26,682</u>
Total operating revenue	1,124,392	2,807,422	3,931,814
Operating Expenses			
Insurance, claims, and other	-	3,697,606	3,697,606
Postretirement contribution	-	600,000	600,000
General and administrative expenses	946,429	-	946,429
Depreciation	<u>431,723</u>	<u>-</u>	<u>431,723</u>
Total operating expenses	<u>1,378,152</u>	<u>4,297,606</u>	<u>5,675,758</u>
Operating Loss	(253,760)	(1,490,184)	(1,743,944)
Nonoperating Income (Expense)			
Net interest income	7,144	42,360	49,504
Loss on sale of capital assets	<u>(12,549)</u>	<u>-</u>	<u>(12,549)</u>
Total nonoperating income (expense)	<u>(5,405)</u>	<u>42,360</u>	<u>36,955</u>
Loss - Before capital contributions and transfers	(259,165)	(1,447,824)	(1,706,989)
Capital Contributions	17,426	-	17,426
Transfers from Other Funds	<u>15,000</u>	<u>600,000</u>	<u>615,000</u>
Net Loss	(226,739)	(847,824)	(1,074,563)
Net Assets - Beginning of year	<u>2,943,139</u>	<u>1,944,828</u>	<u>4,887,967</u>
Net Assets - End of year	<u><u>\$ 2,716,400</u></u>	<u><u>\$ 1,097,004</u></u>	<u><u>\$ 3,813,404</u></u>

City of Trenton, Michigan

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2005

	Motor Vehicle Pool Fund	Self- insurance Fund	Total
Cash Flows from Operating Activities			
Charges for services	\$ 1,124,254	\$ 2,781,044	\$ 3,905,298
Payments to suppliers	(532,721)	-	(532,721)
Claims paid	-	(3,587,368)	(3,587,368)
Payments to employees	(432,618)	-	(432,618)
Postretirement contributions	-	(600,000)	(600,000)
Other receipts	1,146	25,536	26,682
Net cash provided by (used in) operating activities	160,061	(1,380,788)	(1,220,727)
Cash Flows from Investing Activities - Interest received on investments and other assets	7,144	42,360	49,504
Cash Flows from Noncapital Financing Activities - Operating transfers in	15,000	600,000	615,000
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(460,980)	-	(460,980)
Proceeds from sale of assets	46,821	-	46,821
Net cash used in capital and related financing activities	(414,159)	-	(414,159)
Net Change in Cash and Cash Equivalents	(231,954)	(738,428)	(970,382)
Cash and Cash Equivalents - July 1, 2004	461,614	2,603,870	3,065,484
Cash and Cash Equivalents - June 30, 2005	<u>\$ 229,660</u>	<u>\$ 1,865,442</u>	<u>\$ 2,095,102</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities			
Operating loss	\$ (253,760)	\$ (1,490,184)	\$ (1,743,944)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	431,723	-	431,723
Changes in assets and liabilities:			
Prepaid costs and other assets	1,008	71,395	72,403
Accounts payable	24,170	18,424	42,594
Accrued and other liabilities	(43,080)	19,577	(23,503)
Net cash provided by (used in) operating activities	<u>\$ 160,061</u>	<u>\$ (1,380,788)</u>	<u>\$ (1,220,727)</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2005, other funds of the City purchased vehicles and equipment totaling \$17,426 and donated them to the Motor Vehicle Pool Fund.

City of Trenton, Michigan

	Trust Funds		
	Police and Fire	Retiree Health	
	Retirement	Care	Total Trust Funds
	System		
Assets			
Cash and investments	\$ 49,113,173	\$ 1,397,250	\$ 50,510,423
Receivables	229,711	-	229,711
Due from other funds	-	-	-
Total assets	<u>\$ 49,342,884</u>	<u>\$ 1,397,250</u>	<u>\$ 50,740,134</u>
Liabilities and Fund Balances			
Liabilities			
Accrued and other liabilities	\$ -	\$ -	\$ -
Due to other funds	-	-	-
Due to component units	-	-	-
Cash bonds and deposits	-	-	-
Total liabilities	-	-	-
Fund Balances - Held in trust for pension and other employee benefits	<u>49,342,884</u>	<u>1,397,250</u>	<u>50,740,134</u>
Total liabilities and fund balances	<u>\$ 49,342,884</u>	<u>\$ 1,397,250</u>	<u>\$ 50,740,134</u>

**Other Supplemental Information
Combining Balance Sheet
Fiduciary Funds
June 30, 2005**

Agency Funds					
General Cash Fund	Escrow Fund	Wayne County and School Tax Fund	Subtotal	Eliminations	Total Agency Funds
\$ 18,557,222	\$ 93,116	\$ -	\$ 18,650,338	\$ (18,512,357)	\$ 137,981
146,592	-	-	146,592	-	146,592
1,307,528	-	-	1,307,528	(1,307,528)	-
<u>\$ 20,011,342</u>	<u>\$ 93,116</u>	<u>\$ -</u>	<u>\$ 20,104,458</u>	<u>\$ (19,819,885)</u>	<u>\$ 284,573</u>
\$ 191,457	\$ -	\$ -	\$ 191,457	\$ -	\$ 191,457
18,845,995	-	-	18,845,995	(18,845,995)	-
973,890	-	-	973,890	(973,890)	-
-	93,116	-	93,116	-	93,116
20,011,342	93,116	-	20,104,458	(19,819,885)	284,573
-	-	-	-	-	-
<u>\$ 20,011,342</u>	<u>\$ 93,116</u>	<u>\$ -</u>	<u>\$ 20,104,458</u>	<u>\$ (19,819,885)</u>	<u>\$ 284,573</u>

City of Trenton, Michigan

Other Supplemental Information Combining Statement of Changes in Net Assets Fiduciary Funds June 30, 2005

	Pension Trust Fund	Retiree Health Care Trust Fund	Total
Additions			
Investment income:			
Interest and dividends	\$ 1,574,599	\$ 7,394	\$ 1,581,993
Net increase in fair value of investments	4,415,559	187,597	4,603,156
Less investment expenses	(264,546)	-	(264,546)
Net investment income	5,725,612	194,991	5,920,603
Contributions:			
Employer	1,154,506	600,000	1,754,506
Employee	220,552	-	220,552
Total contributions	1,375,058	600,000	1,975,058
Total additions	7,100,670	794,991	7,895,661
Deductions			
Benefit payments	3,340,250	-	3,340,250
Administrative expenses	26,656	-	26,656
Total deductions	3,366,906	-	3,366,906
Net Increase	3,733,764	794,991	4,528,755
Net Assets Held in Trust for Pension and Retiree Health Care			
Beginning of year	45,609,120	602,259	46,211,379
End of year	<u>\$ 49,342,884</u>	<u>\$ 1,397,250</u>	<u>\$ 50,740,134</u>

City of Trenton, Michigan

**Federal Awards
Supplemental Information
June 30, 2004**

City of Trenton, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Trenton, Michigan

We have audited the basic financial statements of the City of Trenton, Michigan for the year ended June 30, 2004 and have issued our report thereon dated October 15, 2004. Those basic financial statements are the responsibility of the management of the City of Trenton, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of Trenton, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

October 15, 2004



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Report Letter on Compliance with Laws and Regulations and Internal Control - Basic Financial Statements

To the Honorable Mayor and
Members of the City Council
City of Trenton, Michigan

We have audited the financial statements of the City of Trenton, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated October 15, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Trenton, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Trenton, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Honorable Mayor and
Members of the City Council
City of Trenton, Michigan

This report is intended solely for the information and use of the city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 15, 2004



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Report Letter on Compliance with Laws and Regulations and Internal Control - Major Federal Awards

To the Honorable Mayor and
Members of the City Council
City of Trenton, Michigan

Compliance

We have audited the compliance of the City of Trenton, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The major federal programs of the City of Trenton, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs are the responsibility of the City of Trenton, Michigan's management. Our responsibility is to express an opinion on the City of Trenton, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Trenton, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Trenton, Michigan's compliance with those requirements.

In our opinion, the City of Trenton, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

To the Honorable Mayor and
Members of the City Council
City of Trenton, Michigan

Internal Control Over Compliance

The management of the City of Trenton, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Trenton, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the city council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

October 15, 2004

City of Trenton, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Passed through Wayne County, Michigan - Community Development Block Grants:	14.218			
Program year 2002 - Streetend Parks		02-29-03K	\$ 129,000	\$ 129,000
Program year 2003 - Streetend Parks		03-29-03K	87,000	113,395
Program year 2003 - House Rehabilitation		03-29-05A	30,000	<u>35,691</u>
Total U.S. Department of Housing and Urban Development				278,086
U.S. Department of Justice - Bureau of Justice Assistance Grant - Bulletproof Vest Partnership	16.607	N/A	26,555	11,213
Department of Homeland Security:				
Federal Emergency Management Agency - Passed through the Michigan State Police, Emergency Management Division - 2003 State Domestic Preparedness Equipment Support Program	97.004	N/A	77,724	77,724
Public Assistance Grants	97.036	N/A	10,496	10,496
State and Local All Hazards Emergency Operations Planning	97.051	N/A	9,750	<u>9,750</u>
Total Department of Homeland Security				97,970
U.S. Department of Transportation - Passed through the Michigan Department of Transportation - Surface Transportation Program - Project number STP 0382(413)	20.205	STP 0382(413)	1,286,400	723,655 *
U.S. Environmental Protection Agency - Passed through Michigan Department of Environmental Quality - Capitalization Grants for Clean Water State Revolving Funds:	66.458			
Project number 5127-02		5127-02	16,535,000	29,756
Project number 5127-04		5127-04	10,325,000	906,681
Project number 5127-05		5127-05	1,990,000	<u>257,431</u>
Total U.S. Environmental Protection Agency				<u>1,193,868 **</u>
Total federal awards				<u><u>\$ 2,304,792</u></u>

* Amount is included in capital assets in the basic financial statements.

** Amount is included in long-term debt in the basic financial statements.

City of Trenton, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 256,497
Federal revenue not reported as such in the financial statements:	
Capitalization Grant Proceeds for State Revolving Fund**	1,193,868
Surface Transportation Program*	723,655
Community Development Block Grants	32,085
2003 State Domestic Preparedness Equipment Support Program	77,724
Bulletproof Vest Partnership	11,213
State and Local All Hazards Emergency Operations Planning	<u>9,750</u>
Federal expenditures per the schedule of expenditures of federal awards	<u>\$ 2,304,792</u>

* Amount is included in capital assets in the basic financial statements.

** Amount is included in long-term debt in the basic financial statements.

City of Trenton, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Trenton, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Note 2 - Loans Outstanding

The City had the following loan balances outstanding at June 30, 2004. Where required by OMB Circular A-133, these recorded loan balances outstanding are also included in the federal expenditures presented in the schedule.

Cluster/Program Title	CFDA Number	Prior Year Amount Outstanding	Amount Outstanding
Capitalization Grants for State Revolving Funds:	66.458		
Project number 5127-01		\$ 11,140,000	\$ 10,645,000
Project number 5127-02		15,890,000	15,230,000
Project number 5127-03		1,005,000	965,000
Project number 5127-04		10,325,000	10,325,000
Project number 5127-05		-	1,990,000
Total		<u>\$ 38,360,000</u>	<u>\$ 39,155,000</u>

City of Trenton, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds
20.205	Surface Transportation Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

City of Trenton, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None